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Australia

Grain and Feed

Quarterly Update

2008

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Report Highlights:
Post forecasts planted area for wheat for the 2008/09 crop to have reached record levels, driven by record high prices and record low sheep numbers. Post acknowledges that the overall sowing conditions experienced while planting the 2008/09 winter cereal crop were mixed and less than ideal. This, together with sharply increased input costs, will likely constrain yields to around average levels and will constrain production from reaching record levels despite a record planted area.

Includes PSD Changes: No
Includes Trade Matrix: No
Quarterly Report
Canberra [AS1]
[AS]

General

At time of writing this report, the planting period for the 2008/09 Australian Winter Cereal Crop (wheat and barley) has concluded. This crop will likely be harvested in November and December. Planting for the 2009/10 summer crop (sorghum and rice) is not due to commence until October or November and would likely be harvest in April and May.

Post forecasts planted area for wheat for the 2008/09 crop to have reached record levels, driven by record high prices and record low sheep numbers. This forecast is supported by industry sources which expect a sharp rebound in planted area following years of low production and low stocks, due to the severe and long running drought conditions which began in 2002/03.

Planting conditions throughout Australia could best be described as "mixed." Northern NSW and Queensland have exceeded average rainfall while central and southern NSW and parts of Victoria have experienced below average rainfall. Parts of NSW remain in drought. South Australia and Western Australia both benefited from early rains in April and some crops were sown during this time. However, the drier conditions that followed meant that the remainder of the crop was either dry sown or late sown under less than ideal conditions.

The month of May, a critical time for planting winter cereal crops, was the driest May on record for the Australian continent, and the fourth driest on record for the southern regions of Australia where the crop is grown.

Post acknowledges that the overall sowing conditions experienced while planting the 2008/09 winter cereal crop were mixed and less than ideal. This, together with sharply increased input costs, will likely constrain yields to around average levels and will constrain production from reaching record levels despite a record planted area. Going forward, post has assumed average weather conditions but would likely revise production downwards significantly if average rainfall was not achieved. Post believes there to be serious chance of downward revisions in production going forward.

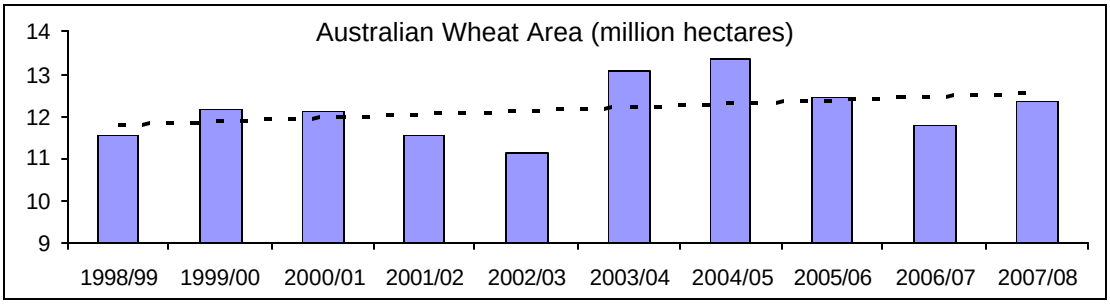
Dry conditions experienced during May have continued to constrain already depleted supplies of irrigation water. Although the sowing period for the summer crop (rice and sorghum) is months away, very tight supplies of irrigation water have already done much to constrain expectations of the 2009/10 summer crop harvest. In a recent statement, the NSW government announced that irrigation water levels are at 21% of capacity, excluding the snowy system which itself is critically low. Areas of northern NSW will likely open the season with a 30 percent allocation (or one third of their entitlement). Southern areas, such as the Lachlan valley will likely open with zero percent allocation and will rely on carryover or traded water for the 2009/10 crop.

Post has not taken into consideration local media reports suggesting below average probability of average rainfall for the months of July, August and September for key grain growing regions. Some industry sources have already slashed their production forecasts on the basis that one dry month in the lead-up to harvest will likely reduce production substantially.

Wheat

Production

Total area planted in 2008/09 to wheat is forecast by post at 14.0 million hectares, up on the previous forecast submitted by post. If achieved, this area would represent an all time record easily surpassing the 13.4 million hectares planted in 2004/05. Record high wheat prices combined with record low sheep numbers has likely driven planted area to record levels.



Source: ABARE Data

Post forecasts total wheat production for 2008/09 at 22.4 MMT, down on post's previous forecast. Below average rainfall in some key grain growing regions has reduced expectations for wheat production despite an increase in forecast planted area. Given average climatic conditions, and allowing for some variation in the final area number, post sees the scope for Australian wheat production varying between 20.2 and 24.7 MMT. Climatic conditions outside of those considered "normal" would likely push production outside this range.

Post's production forecast assumes an average yield of around 1.6 MT/Ha. This figure remains slightly under the 10 year average of 1.64 MT/Ha, according to historic ABARE data. Post believes that, although it is still early in the season, the mixed rainfall conditions experienced so far and the record dry period for the month of May, would likely have constrained yield potential to slightly below average levels (assuming average rainfall for the remainder of the season). Record prices for inputs such as chemical, fertilizer and fuel will also provide some downward pressure on average yield.

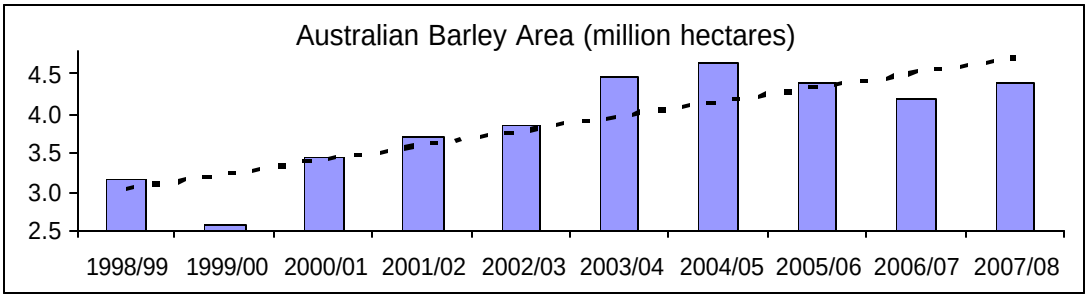
Wheat Production Potential				
	Area (000 Ha)			
Yield (MT)		**13,500**	**14,000**	**14,500**
	1.5	20,250	21,000	21,750
	1.6	21,600	**22,400**	23,200
	1.7	22,950	23,800	24,650

Barley

Total area planted to barley for 2008/09 is forecast at 4.5 million hectares, largely unchanged from post's previous forecast. This is considered a near record planted area for barley and if achieved would only be surpassed by the 4.65 million hectares planted in 2004/05.
According to ABARE's historical data, the total area sown to Barley has held remarkably firm since the drought began in 2002/03 reflecting the resilience of the shorter season crop. Late planting and difficult spring conditions typically impact barley productivity less than other

winter crops such as wheat. Difficult seasonal conditions, particularly at planting time, can lead to an increase in the proportion of total winter cereal area sown to barley and often results in a firming of Barley acreage going forward in the season, often in contrast to a downsizing in wheat area forecasts.

Post advises that upside potential for both area and production remain. Barley prices, particularly for malt grade remain competitively priced with wheat. Industry sources suggest that international prices are also expected to remain strong. Furthermore, "on farm" factors such as the likelihood of higher seed stocks and reduced planting cost also provide upward potential for barley. The potential exists for barley area and production to be revised.



Source: ABARE data

Post forecasts Barley production for 2008/09 at 7.85 MMT, lower than post's previous forecast. Despite this fall, this reduction remains smaller than many other forecast falls in Barley production. Mixed weather conditions are not expected to have placed as much pressure on Barley yields as they have for wheat.

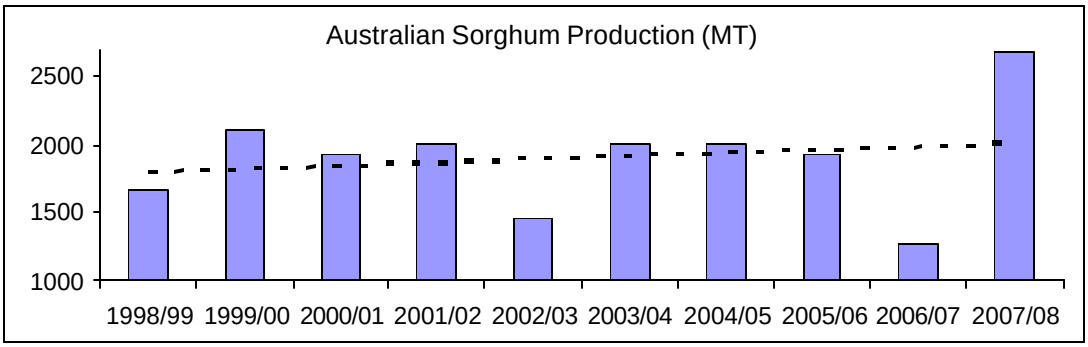
Barley Production Potential (TMT)				
	Area (000 Ha)			
Yield (MT)		**4,250**	**4,500**	**4,750**
	1.7	7,225	7,650	8,075
	1.75	7,438	**7,875**	8,313
	1.8	7,650	8,100	8,550

Post's forecast for Australian Barley production has assumed a yield of 1.75 MT/Ha, exactly in line with the ten year average for yield.

Sorghum

Total Sorghum production for 2009/10 is forecast at 2.0 MMT, slightly above average according to ABARE's historical data. Post has assumed average seasonal conditions and around average yield for this crop. Planted area is expected to fall from the record levels achieved in the previous year.

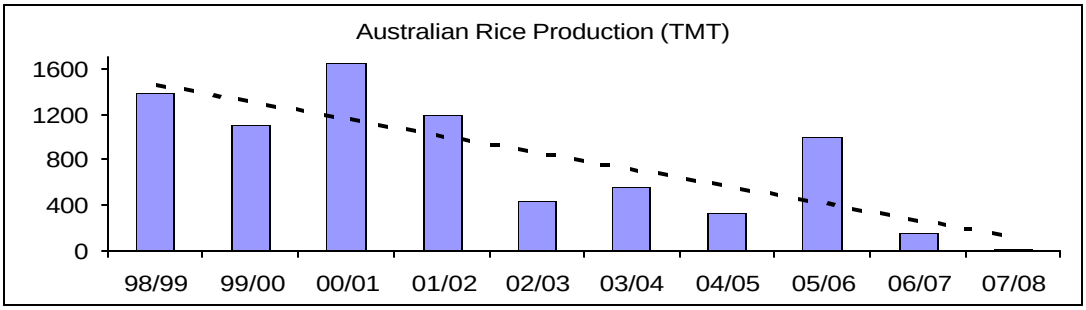
Post advises that planting for this crop will not likely commence until October and harvest will not likely begin before March the following year. Sorghum traditionally has been regarded by many growers as an opportunity crop, grown only when rainfall allows. As a result, sorghum plantings historically have varied greatly with rainfall levels.



Rice

Rice production for 2009/10 is forecast at 250,000 MT, up sharply on the record low 19,000 MT produced in the previous season. Improved supplies of irrigation water are expected to see production increase significantly in 2009/10. Despite this sharp increase in production this forecast, if achieved, falls dramatically below the ten year average of 784,000 MT established using ABARE's historic data.

Post advises that the irrigation water required to sustain increased production of rice is not yet assured. In order to see rice production move upwards significant rainfall events in the catchment areas will be required in the lead-up to planting the 2009/10 crop in November. Furthermore these rainfall events are not only required to reach levels reflective of the long term average, but are also required to produce vital "runoff" water for collection in irrigation water reservoirs.



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AS8028	New Wheat Marketing Legislation Progresses Through Parliament	06/05/08
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